



STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements

January 31, 2004 and 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Public Employees' Retirement Board
State of Alaska Supplemental Benefits System:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Supplemental Benefits System (Plan), a Component Unit of the State of Alaska, as of January 31, 2004 and 2003, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Alaska Supplemental Benefits System, a Component Unit of the State of Alaska, as of January 31, 2004 and 2003, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government, as amended, effective February 1, 2002.

The accompanying required supplementary information of management's discussion and analysis on pages 2 to 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

June 18, 2004

STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
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Management's Discussion and Analysis

January 31, 2004 and 2003

The objective of Management's Discussion and Analysis is to help readers of the Supplemental Benefits System (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal years ended January 31, 2004 and 2003. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

The Plan

The Plan was created by State of Alaska Statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State of Alaska (State) employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska Statute. As of January 31, 2004 and 2003, there were fifteen other employers besides the State participating in the Plan. There were approximately 32,000 and 31,000 participants in the Plan as of January 31, 2004 and 2003, respectively.

The Division of Retirement and Benefits is responsible for Plan administration and recordkeeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in the Plan.

There are two underlying employee benefit plans within the Plan. These two plans are presented individually in the financial statements. The Supplemental Annuity Plan, a 401(a) Defined Contribution Plan, contains the contributions made in lieu of Social Security. The Supplemental Annuity Plan contains over 99% of the assets, and over 95% of the contribution activity described in the following financial statements. The Supplemental Benefits Plan, an IRC 129 Cafeteria Plan, contains voluntary contributions for the purchase of optional insurance benefits or to deposit to dependent day care reimbursement accounts as elected by each employee enrolled in the Supplemental Benefits Plan.

Financial Highlights

- The net assets held in trust for benefits at January 31, 2004 and 2003, are \$1.852 billion and \$1.575 billion, respectively. The net assets represent employer and employee contributions and investment income.
- The net assets of the Plan at January 31, 2004 increased by \$277.1 million, or approximately 17.6%, from the prior fiscal year. The net assets of the Plan at January 31, 2003 decreased by \$121.8 million or approximately 7.2% from the prior fiscal year.
- The Plan incurred a net investment gain of \$289 million in the 2004 fiscal year, compared to a \$123.6 million investment loss in the 2003 fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

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Statements of Fiduciary Net Assets – presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension and insurance benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments, receivables, and other assets and liabilities at January 31, 2004 and 2003. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Plan.

Statements of Changes in Fiduciary Net Assets – presents information showing how the Plan's net assets held in trust for benefits changed during the years ended January 31, 2004 and 2003. It reflects contributions by employees and employers along with investment income (or losses) during the period from individual participant directed investing activities. Deductions for participant withdrawals, benefit payments, and administrative expenses are also presented. This statement is presented individually for both the Supplemental Annuity Plan and the Supplemental Benefits Plan.

Notes to the Financial Statements – provides additional information that is essential to a full understanding of the data provided in the financial statements.

Investments

The Plan is participant directed, which means that the Plan's participants decide in which options to invest. Of total Plan Fiduciary Net Assets of \$1.852 billion at January 31, 2004, 99.6% of which, or \$1.844 billion, are specifically allocated to individual participant accounts. Of total Plan Fiduciary Net Assets of \$1.575 billion at January 31, 2003, 99.5% of which, or \$1.567 billion, are specifically allocated to individual participant accounts.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

As of January 31, 2004, the following funds are available to participants for investment.

Collective Investment Funds

International Equity Fund – the purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Small Cap Stock Trust Fund – the purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

S&P 500 Stock Index Fund – the purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's 500 Composite Stock Price Index.

Daily Government/Corporate Bond Fund – the purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index.

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Short-Term Investment Fund – the purpose of this fund is for the yield of the Fund to reflect short-term interest rates as it attempts to maintain a constant unit value.

Tactical Asset Allocation Fund – this fund invests in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relies on a computer-based model to determine the allocation of index funds.

Global Balanced Fund – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

Citizens Core Growth Fund – this fund invests in stocks and bonds of U.S. and international companies and governments, with an emphasis on those that are managed in a socially responsible manner.

Pooled Investment Funds

Alaska Target 2005 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for investors with a low tolerance for risk. The fund is designed to gradually invest more conservatively as the year 2005 approaches.

Alaska Target 2010 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long-term investors with a low to moderate tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2010 approaches.

Alaska Target 2015 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a moderate to high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2015 approaches.

Alaska Target 2020 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long-term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2020 approaches.

Alaska Long-Term Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.

Alaska Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.

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Participant Directed Investments at January 31 Year End (in thousands)

	<u>2004</u>	<u>2003</u>
Alaska Balanced Fund	\$ 1,094,083	957,599
S&P Stock Index Fund	277,273	193,477
Alaska Target 2015 Fund	84,192	65,570
Short-Term Investment Fund	82,902	109,176
Daily Govt./Corp. Bond Fund	47,873	86,555
Alaska Target 2010 Fund	47,133	42,410
Alaska Target 2005 Fund	20,210	23,221
Alaska Long-Term Balanced Fund	39,406	14,496
Global Balanced Fund	39,000	21,865
International Equity Fund	32,369	3,952
Small Cap Stock Trust Fund	25,469	9,125
Citizens Core Growth Fund	24,275	19,836
Tactical Asset Allocation Fund	18,321	15,204
Alaska Target 2020 Fund	11,695	4,950

Investment Returns for the 12-Month Periods Ended December 31, 2003 and 2002 (Unaudited)

	<u>2003</u> <u>1-Year Actual</u>	<u>2002</u> <u>1-Year Actual</u>
International Equity Fund	47.97%	(15.80)%
Small Cap Trust Fund	34.72	15.06
Citizens Core Growth Fund	24.00	(25.24)
S&P Stock Index Fund	28.68	(22.08)
Global Balanced Fund	28.05	(11.63)
Tactical Asset Allocation Fund	17.00	(11.89)
Daily Govt./Corp. Bond Fund	4.85	11.34
Short-Term Investment Fund	1.22	1.98
Alaska Target 2005 Fund	5.22	(0.26)
Alaska Target 2010 Fund	13.68	(8.16)
Alaska Target 2015 Fund	22.73	(16.87)
Alaska Target 2020 Fund	28.19	(17.61)
Alaska Balanced Fund	13.84	(2.21)
Alaska Long-Term Balanced Fund	19.60	(9.70)

The positive change in the investment return is due to the improved investment market in 2003.

Fiduciary Responsibilities

The Alaska State Pension Investment Board, the plan administrator, the Commissioner of Administration, and the Public Employee's Retirement Board are co-fiduciaries of the Plan. The assets of the plan can only be used for the exclusive benefit of the plan's participants, beneficiaries, and alternate payees.

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Request for Information

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Alaska Division of Retirement & Benefits
Supplemental Benefits System
PO Box 110203
Juneau, Alaska 99811-0203

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Statements of Fiduciary Net Assets - Annuity and Cafeteria Plans
January 31, 2004 and 2003

(In thousands)

	<u>Annuity</u>	<u>Cafeteria</u>	<u>Total</u>	<u>Annuity</u>	<u>Cafeteria</u>	<u>Total</u>
	2004	2004	2004	2003	2003	2003
Current assets:						
Cash and cash equivalent	\$ 540	451	991	446	469	915
Receivables:						
Mandatory contributions	4,935	—	4,935	4,932	—	4,932
Voluntary contributions	—	209	209	—	206	206
Total receivables	4,935	209	5,144	4,932	206	5,138
Investments:						
Collective investment funds, at fair value:						
Participant-directed	547,482	—	547,482	459,191	—	459,191
Money market fund	2,664	—	2,664	2,294	—	2,294
	550,146	—	550,146	461,485	—	461,485
Ownership of pooled investment funds, participant directed at fair value	1,296,719	—	1,296,719	1,108,245	—	1,108,245
Total investments	1,846,865	—	1,846,865	1,569,730	—	1,569,730
Investment Loss Trust Fund, at fair value	1,605	—	1,605	1,606	—	1,606
Total assets	1,853,945	660	1,854,605	1,576,714	675	1,577,389
Current liabilities:						
Payable to Plan participants	1,605	—	1,605	1,606	—	1,606
Accrued expenses	162	509	671	103	481	584
Total liabilities	1,767	509	2,276	1,709	481	2,190
Commitments and contingencies						
Net assets held in trust for individuals, organizations, and other governments	\$ 1,852,178	151	1,852,329	1,575,005	194	1,575,199

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Assets - Annuity and Cafeteria Plans
Years ended January 31, 2004 and 2003
(In thousands)

	<u>Annuity</u>	<u>Cafeteria</u>	<u>Total</u>	<u>Annuity</u>	<u>Cafeteria</u>	<u>Total</u>
	2004	2004	2004	2003	2003	2003
Additions:						
Contributions:						
Mandatory	\$ 105,286	—	105,286	102,265	—	102,265
Voluntary	—	4,711	4,711	—	4,718	4,718
Total contributions	105,286	4,711	109,997	102,265	4,718	106,983
Investment income (loss):						
Net appreciation (depreciation) in fair market value of investments	288,913	—	288,913	(123,634)	—	(123,634)
Interest	39	—	39	58	—	58
Net investment income (loss)	288,952	—	288,952	(123,576)	—	(123,576)
Total additions	394,238	4,711	398,949	(21,311)	4,718	(16,593)
Deductions:						
Benefits paid to participants and purchases of annuity contracts	114,409	—	114,409	98,060	—	98,060
Insurance premiums and contributions to State of Alaska self-insurance fund	—	4,754	4,754	—	4,715	4,715
Administrative expenses - Annuity	2,459	—	2,459	2,261	—	2,261
Administrative Expenses - Paid by Annuity for Cafeteria	197	—	197	189	—	189
Total deductions	117,065	4,754	121,819	100,510	4,715	105,225
Net increase (decrease) assets held in trust for individuals, organizations, and other governments	277,173	(43)	277,130	(121,821)	3	(121,818)
Net assets, beginning of year	1,575,005	194	1,575,199	1,696,826	191	1,697,017
Net assets, end of year	\$ 1,852,178	151	1,852,329	1,575,005	194	1,575,199

See accompanying notes to financial statements.

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(Dollars in thousands)

(1) Description

The following brief description of the State of Alaska Supplemental Benefits System (Plan), a Component Unit of the State of Alaska, which is comprised of the Supplemental Annuity Plan and the Supplemental Benefits Plan, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan was created by State of Alaska Statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State of Alaska (State) employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska Statute. As of January 31, 2004 and 2003, there were fifteen other employers besides the State participating in the Plan. There were approximately 31,990 and 31,000 participants in the Plan as of January 31, 2004 and 2003, respectively.

The Division of Retirement and Benefits is responsible for Plan administration and recordkeeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in the Plan.

(b) Contributions

Mandatory contributions are made to the Supplemental Annuity Plan, a defined contribution plan, and voluntary contributions to the Supplemental Benefits Plan. Participating employees are vested at all times.

Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The State and other participating employers are required by statute to contribute 12.26% of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one-half the contribution made on the employee's behalf.

Supplemental Benefits Plan contributions are voluntary based upon the optional benefits elected by each employee enrolled in the Plan. Each employee agrees to a wage reduction based upon the benefit options selected. The benefit amounts are deducted from each employee's wages and remitted by the employer to the Plan on the employee's behalf.

(c) Participant Accounts

Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options.

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At January 31, 2004, participants had the following investment options:

Collective Investment Funds

International Equity Fund – the purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Small Cap Stock Trust Fund – the purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

S&P 500 Stock Index Fund – the purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's 500 Composite Stock Price Index.

Daily Government/Corporate Bond Fund – the purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index.

Short-term Investment Fund – the purpose of this fund is for the yield of the Fund to reflect short-term interest rates as it attempts to maintain a constant unit value.

Tactical Asset Allocation Fund – this fund invests in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relies on a computer-based model to determine the allocation of index funds.

Global Balanced Fund – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

Citizens Core Growth Fund – this fund invests in stocks and bonds of U.S. and international companies and governments, with an emphasis on those that are managed in a socially responsible manner.

Pooled Investment Funds

Alaska Target 2005 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for investors with a low tolerance for risk. The fund is designed to gradually invest more conservatively as the year 2005 approaches.

Alaska Target 2010 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a low to moderate tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2010 approaches.

Alaska Target 2015 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a moderate to high tolerance for risk. This fund is designed to

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gradually invest more conservatively, with an emphasis on capital preservation, as the year 2015 approaches.

Alaska Target 2020 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2020 approaches.

Alaska Long-Term Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.

Alaska Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lump-sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the recordkeeper and by the State. The investment management fees are netted out of the funds' performance.

(d) *Payment of Annuity Benefits*

Employees are eligible to withdraw from the Supplemental Annuity Plan sixty days after termination. Benefits are payable in the form of a lump sum annuity or one of various continuing annuities purchased from an insurance carrier, which are excluded from Plan assets. The plan administrator issues lump-sum disbursements through its contracted recordkeeper.

(e) *Supplemental Benefits*

Benefits available under the Supplemental Benefits Plan include death, disability, survivor benefits, and dependent care reimbursement. Selection of these benefits is at the discretion of the employee, with certain restrictions, and may be amended and/or changed on an annual basis or in conjunction with an employee change in status.

All supplemental benefits, except dependent care reimbursement, are provided through insurance policies. The dependent care reimbursement program is administered by the State.

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(f) *Funding of the Plan*

Supplemental annuity contributions from employers were deposited with investment managers under contract with the Plan for the years ended January 31, 2004 and 2003. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to participant contributions received during the year.

(g) *Effect of Plan Termination*

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may in its sole and absolute discretion terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan is terminated, the deposit contracts shall remain in force until all individual employee benefit accounts have been completely distributed in accordance with the Plan.

The employers are under no obligation or liability to continue making contributions to, or participate in, the Plan. Employers in their sole and absolute discretion may discontinue participation and contributions with no liability whatsoever for such termination except liability to the State under the terms of the participation agreement.

(h) *Income Taxes*

The Plan is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

(2) *Summary of Significant Accounting Policies*

(a) *Basis of Accounting*

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and additions and deductions for the reporting periods. Actual results could differ from those estimates.

(b) *Valuation of Collective Investment Funds*

The Plan's investments in collective investment funds (note 3), held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

(c) *Valuation of Ownership of Pooled Investment Funds*

The Plan's ownership of pooled investment funds (note 4), held in trust, are stated at fair value based on the unit values as reported by the Trustees multiplied by the number of units held by the Plan. The

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unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

(d) Cash and Cash Equivalents

Cash and cash equivalents at January 31, 2004 and 2003 are comprised of interest-bearing deposits.

(e) Contributions Receivable

Contributions applicable to wages earned through January 31 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

(f) GASB Statement No. 34

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34) on February 1, 2002, concurrent with the State of Alaska’s adoption of GASB No. 34. This statement, known as the “reporting model” statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of fiduciary net assets and statements of changes in fiduciary net assets. Modifications made to the Plan’s financial reporting model as a result of the adoption of GASB No. 34 include presentation of management’s discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format.

(3) Collective Investment Funds

The Plan’s investments at January 31 include the following collective investment funds:

	2004			2003		
	Units owned	Unit value	Balance (In thousands)	Units owned	Unit value	Balance (In thousands)
S&P 500 Stock Index Fund	13,889	\$ 19,949	277,273	13,045	\$ 14,831	193,477
Citizens Core Growth Fund	1,582	15,340	24,275	1,661	11,940	19,836
Daily Government/Corporate Bond Fund	2,867	16,700	47,873	5,471	15,821	86,556
Short-term Investment Fund	5,913	14,020	82,902	7,868	13,876	109,177
Tactical Asset Allocation Fund	1,922	9,530	18,321	1,932	7,870	15,204
Global Balanced Fund	1,506	25,900	39,000	1,128	19,380	21,864
Small Cap Stock Trust Fund	852	29,890	25,469	438	20,820	9,125
International Equity Fund	1,783	18,150	32,369	331	11,950	3,952
Money Market Fund	183	14,547	2,664	159	14,446	2,294
Total collective investment funds			\$ 550,146			\$ 461,485

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(4) Ownership of Pooled Investment Funds

The Plan has formed six pooled investment funds which six of the participant directed funds invest in. The pooled investment funds are wholly owned by the six participant directed funds. The pooled investment funds, and their investments, are as follows as of January 31:

	<u>GNMA Pool</u>	<u>Government/ Corporate Pool</u>	<u>Cash Pool</u>	<u>Equity Pool</u>	<u>Small Cap Pool</u>	<u>International Equity Pool</u>	<u>Total</u>
2004:							
Deposits -- cash and cash equivalents and accrued interest \$	1,146	9,864	810	1,016	229	290	13,355
Commercial Paper	—	—	28,978	—	—	—	28,978
Asset backed securities	—	401	—	—	—	—	401
Mortgage backed securities	199,245	—	—	—	—	—	199,245
Corporate notes and bonds	—	198,731	3,060	—	—	—	201,791
U.S. Treasury securities	—	179,454	—	—	—	—	179,454
Yankees	—	26,789	—	—	—	—	26,789
Federal agency government debt	—	93,087	2,991	—	—	—	96,078
Equity	—	—	—	446,441	50,000	54,187	550,628
Total							
investments \$	<u>200,391</u>	<u>508,326</u>	<u>35,839</u>	<u>447,457</u>	<u>50,229</u>	<u>54,477</u>	<u>1,296,719</u>
Ownership in the above pooled investments funds is summarized as follows:							
Alaska Target 2005 Fund	0.21%	0.76%	37.96%	0.49%	0.00%	0.00%	1.56%
Alaska Target 2010 Fund	0.96%	3.17%	27.81%	4.05%	1.95%	0.00%	3.64%
Alaska Target 2015 Fund	0.69%	2.60%	26.80%	11.47%	11.54%	5.34%	6.48%
Alaska Target 2020 Fund	0.00%	0.22%	1.52%	1.74%	2.23%	1.99%	0.90%
Alaska Long-term Balanced Fund	2.16%	1.95%	1.03%	4.59%	4.03%	2.96%	2.99%
Alaska Balanced Fund	95.98%	91.30%	4.88%	77.66%	80.25%	89.71%	84.43%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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	<u>GNMA Pool</u>	<u>Government/ Corporate Pool</u>	<u>Cash Pool</u>	<u>Equity Pool</u>	<u>Small Cap Pool</u>	<u>International Equity Pool</u>	<u>Total</u>
2003:							
Deposits – cash and cash equivalents and accrued interest \$	47,093	10,559	28,553	587	26	933	87,751
Commercial Paper	—	—	—	—	—	—	—
Asset backed securities	—	44	—	—	—	—	44
Mortgage backed securities	122,746	—	—	—	—	—	122,746
Corporate notes and bonds	—	187,688	3,387	—	—	—	191,075
U.S. Treasury securities	3,565	168,359	—	—	—	—	171,924
Yankees	—	—	—	—	—	—	—
Federal agency government debt	—	89,097	—	—	—	—	89,097
Equity	—	—	—	366,153	37,253	42,202	445,608
Total							
investments \$	<u>173,404</u>	<u>455,747</u>	<u>31,940</u>	<u>366,740</u>	<u>37,279</u>	<u>43,135</u>	<u>1,108,245</u>
Ownership in the above pooled investments funds is summarized as follows:							
Alaska Target 2005 Fund	0.41%	1.39%	39.90%	0.97%	0.00%	0.00%	2.10%
Alaska Target 2010 Fund	0.86%	2.92%	25.41%	5.00%	3.42%	0.00%	3.83%
Alaska Target 2015 Fund	0.43%	1.76%	19.79%	11.46%	13.78%	8.49%	5.93%
Alaska Target 2020 Fund	0.00%	0.06%	0.77%	0.94%	1.32%	1.15%	0.45%
Alaska Long-term Balanced Fund	0.93%	0.80%	0.44%	2.01%	1.88%	1.31%	1.27%
Alaska Balanced Fund	97.37%	93.07%	13.69%	79.62%	79.60%	89.05%	86.42%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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(5) Changes in Fiduciary Net Assets

During the years ended January 31, 2004 and 2003 the following changes in fiduciary net assets by fund took place:

	Participant directed							
	International Equity Fund	Small Cap Stock Trust Fund	Citizens Core Growth Fund	S&P 500 Stock Index Fund	Global Balanced Fund	Tactical Asset Allocation Fund	Daily Government/ Corporate Bond Fund	Short-term Investment Fund
2004:								
Additions:								
Contributions:								
Mandatory contributions	\$ 837	1,302	1,855	13,658	1,513	916	3,960	3,509
Voluntary contributions	—	—	—	—	—	—	—	—
Total contributions	837	1,302	1,855	13,658	1,513	916	3,960	3,509
Investment income (loss):								
Net appreciation (depreciation) in fair market value of investments	5,079	5,340	5,591	68,307	7,925	3,268	3,754	1,040
Interest income	—	—	—	—	—	—	—	—
Net investment income (loss)	5,079	5,340	5,591	68,307	7,925	3,268	3,754	1,040
Total additions	5,916	6,642	7,446	81,965	9,438	4,184	7,714	4,549
Deductions:								
Benefits paid to participants and purchases of annuity contracts	460	1,191	1,417	11,781	1,041	521	5,929	17,930
Insurance premiums and contributions to State of Alaska self-insurance fund	—	—	—	—	—	—	—	—
Administrative expenses:								
Actual expenses paid	21	25	36	344	41	25	97	131
Expenses deducted from participant accounts	—	—	—	—	—	—	—	—
Total deductions	481	1,216	1,453	12,125	1,082	546	6,026	18,061
Net increase (decrease) prior to interfund transfers	5,435	5,426	5,993	69,840	8,356	3,638	1,688	(13,512)
Interfund transfers	22,982	10,919	(1,554)	13,956	8,779	(523)	(40,370)	(12,762)
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments	28,417	16,345	4,439	83,796	17,135	3,115	(38,682)	(26,274)
Net assets, beginning of year	3,952	9,125	19,836	193,477	21,865	15,204	86,555	109,176
Net assets, end of year	\$ 32,369	25,470	24,275	277,273	39,000	18,319	47,873	82,902

						Nonparticipant directed				
Alaska Target 2005 Fund	Alaska Target 2010 Fund	Alaska Target 2015 Fund	Alaska Target 2020 Fund	Alaska Balanced Fund	Alaska Long Term Balanced Fund	Money Market Fund	Cash and cash equivalents	Contributions receivable	Accrued expenses	Total
729	1,805	3,918	667	54,623	15,943	—	48	3	—	105,286
—	—	—	—	—	—	—	4,708	3	—	4,711
729	1,805	3,918	667	54,623	15,943	—	4,756	6	—	109,997
1,328	6,804	17,880	2,057	155,272	5,268	—	—	—	—	288,913
—	—	—	—	—	—	13	26	—	—	39
1,328	6,804	17,880	2,057	155,272	5,268	13	26	—	—	288,952
2,057	8,609	21,798	2,724	209,895	21,211	13	4,782	6	—	398,949
2,262	1,929	2,524	243	64,563	2,618	—	—	—	—	114,409
—	—	—	—	—	—	—	4,726	—	28	4,754
—	—	—	—	—	—	1,586	1,011	—	59	2,656
29	61	108	13	1,697	346	(2,974)	—	—	—	—
2,291	1,990	2,632	256	66,260	2,964	(1,388)	5,737	—	87	121,819
(234)	6,619	19,166	2,468	143,635	18,247	1,401	(955)	6	(87)	277,130
(2,777)	(1,896)	(544)	4,277	(7,151)	6,664	(1,031)	1,031	—	—	—
(3,011)	4,723	18,622	6,745	136,484	24,911	370	76	6	(87)	277,130
23,221	42,410	65,570	4,950	957,599	14,496	2,294	915	5,138	(584)	1,575,199
20,210	47,133	84,192	11,695	1,094,083	39,407	2,664	991	5,144	(671)	1,852,329

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	Participant directed							
	International Equity Fund	Small Cap Stock Trust Fund	Citizens Core Growth Fund	S&P 500 Stock Index Fund	Global Balanced Fund	Tactical Asset Allocation Fund	Daily Government/ Corporate Bond Fund	Short-term Investment Fund
2003:								
Additions:								
Contributions:								
Mandatory contributions	\$ 384	952	2,323	14,392	1,472	959	3,105	3,642
Voluntary contributions	—	—	—	—	—	—	—	—
Total contributions	384	952	2,323	14,392	1,472	959	3,105	3,642
Investment income (loss):								
Net appreciation (depreciation) in fair market value of investments	(1,203)	(3,196)	(8,157)	(60,209)	(3,340)	(2,397)	5,655	1,762
Interest income	—	—	—	—	—	—	—	—
Net investment income (loss)	(1,203)	(3,196)	(8,157)	(60,209)	(3,340)	(2,397)	5,655	1,762
Total additions	(819)	(2,244)	(5,834)	(45,817)	(1,868)	(1,438)	8,760	5,404
Deductions:								
Benefits paid to participants and purchases of annuity contracts	195	341	901	7,075	918	421	5,592	18,782
Insurance premiums and contributions to State of Alaska self-insurance fund	—	—	—	—	—	—	—	—
Administrative expenses:								
Actual expenses paid	7	17	42	343	35	25	91	137
Expenses deducted from participant accounts	—	—	—	—	—	—	—	—
Total deductions	202	358	943	7,418	953	446	5,683	18,919
Net increase (decrease) prior to interfund transfers	(1,021)	(2,602)	(6,777)	(53,235)	(2,821)	(1,884)	3,077	(13,515)
Interfund transfers	3,834	2,414	(7,675)	(14,756)	(286)	(1,930)	35,815	24,426
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments	2,813	(188)	(14,452)	(67,991)	(3,107)	(3,814)	38,892	10,911
Net assets, beginning of year	1,139	9,313	34,288	261,468	24,972	19,018	47,663	98,265
Net assets, end of year	\$ 3,952	9,125	19,836	193,477	21,865	15,204	86,555	109,176

						Nonparticipant directed				
Alaska Target 2005 Fund	Alaska Target 2010 Fund	Alaska Target 2015 Fund	Alaska Target 2020 Fund	Alaska Balanced Fund	Alaska Long Term Balanced Fund	Money Market Fund	Cash and cash equivalents	Contributions receivable	Accrued expenses	Total
765	1,967	4,341	552	58,322	8,865	—	—	224	—	102,265
—	—	—	—	—	—	—	4,636	82	—	4,718
765	1,967	4,341	552	58,322	8,865	—	4,636	306	—	106,983
(139)	(4,229)	(14,784)	(1,213)	(31,057)	(1,127)	—	—	—	—	(123,634)
—	—	—	—	—	—	22	36	—	—	58
(139)	(4,229)	(14,784)	(1,213)	(31,057)	(1,127)	22	36	—	—	(123,576)
626	(2,262)	(10,443)	(661)	27,265	7,738	22	4,672	306	—	(16,593)
1,102	1,184	1,469	305	59,151	624	—	—	—	—	98,060
—	—	—	—	—	—	—	4,504	—	211	4,715
—	—	—	—	—	—	1,622	970	—	(142)	2,450
30	62	112	10	1,713	250	(2,874)	—	—	—	—
1,132	1,246	1,581	315	60,864	874	(1,252)	5,474	—	69	105,225
(506)	(3,508)	(12,024)	(976)	(33,599)	6,864	1,274	(802)	306	(69)	(121,818)
1,413	(2,528)	(7,509)	588	(34,894)	1,088	(1,200)	1,200	—	—	—
907	(6,036)	(19,533)	(388)	(68,493)	7,952	74	398	306	(69)	(121,818)
22,314	48,446	85,103	5,338	1,026,092	6,544	2,220	517	4,832	(515)	1,697,017
23,221	42,410	65,570	4,950	957,599	14,496	2,294	915	5,138	(584)	1,575,199

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(6) Investment Loss Trust Fund

Deposits with contract values of \$131,805 at January 31, 1991 were invested in guaranteed investment contracts with Executive Life Insurance Company (Executive Life), which was taken over by California State Regulators in April 1991, resulting in uncertainty about the value of these Plan assets.

To address this situation, the Investment Loss Trust Fund (Fund) was established by Alaska Statute 37.14.300. The Alaska Department of Administration is to spend that Fund as necessary to hold participants in the Plan and annuity holders (with Executive Life) harmless from a loss of value in the investment and annuity contracts issued by Executive Life.

The hold harmless loss limit was the principal plus accrued interest through May 3, 1991, plus earnings by the Fund on that balance since that date, less a portion of earnings to be used to pursue recovery (at a 1% rate) of the investment value and protect the interest of Plan participants and annuity holders. Unpaid annuity amounts due to current annuity holders under contracts issued by Executive Life are also covered by the Fund.

The Fund was capitalized with \$138,100 of appropriations by the State. The physical control and ownership of the assets of the Fund are under the control of the State, and not the Plan. However, through the Fund legislation and the Partial Interim Settlement Agreement in *Maupin, et al vs. State of Alaska, et al*, 3AN-91-6006 Civil, the participants in the Plan are held harmless to the extent allowed by law. Therefore, the amount represented by the asset, the Fund, is the amount computed to be the incremented hold harmless limit.

In February 1994, the State and the Plan elected to opt out of the plan of rehabilitation for Executive Life. By that action, which covered the guaranteed investment contracts issued before January 1, 1989, and a favorable ruling by the California Court of Appeals (as supported by the election of the California Supreme Court not to hear a further appeal of that ruling) which related to the contracts issued after 1989, the Plan received from the conservator, and therefore ultimately the State of Alaska received payments of \$133,746 through January 31, 2004.

The availability of the amounts from the conservator did not affect the Partial Interim Settlement Agreement approved in 1992 by the Alaska Superior Court in *Maupin, et al vs. State of Alaska* as it related to the accounts of individual participants. From May 1991 through October 1995 the Plan recorded the assets of the Fund in lieu of carrying the Executive Life investment contracts. Also included were assets set aside to hold harmless those who had continuing annuity contracts with Aurora National Life Assurance Company.

At January 31, 2004 and 2003, the Fund was comprised as follows:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ <u>1,605</u>	<u>1,606</u>

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With the receipt of the October 1995 Executive Life Settlements, the amounts represented by Investment Loss Trust Fund assets, and the accumulated earnings thereon in individual accounts, were moved to the corresponding member's regular annuity plan account and their Investment Loss Trust Fund account closed. In April 1996, the Alaska Superior Court approved a final settlement with the State of Alaska that does not contemplate the making of any further payments by the State of Alaska to the members of the Class in *Maupin, et al vs. State of Alaska* beyond the payments already made pursuant to the Partial Interim Settlement Agreement described previously. During 2000, the State of Alaska Legislature appropriated a portion of the Fund assets, totaling \$4 million, to be used for other purposes.

The remaining assets of the Fund relate to continuing annuity contracts with Executive Life and are managed by the State Treasury.

(7) Credit Risk

To provide an indication of the level of credit risk assumed by the Plan at January 31, 2004, the Plan's deposits and investments are categorized as follows:

(a) Deposits

Category 1 – Insured or collateralized with securities held by the Plan or its custodian in the Plan's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or custodian in the Plan's name.

Category 3 – Uncollateralized.

(b) Investments

Category 1 – Insured or registered for which the securities are held by the Plan or its custodian in the Plan's name.

Category 2 – Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Plan's name.

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Category 3 – Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the Plan's name.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Not categorized</u>	<u>Market value and carrying value</u>
Deposits – cash and cash equivalents	\$ —	—	—	991	991
Investments:					
Collective investment funds	—	—	—	550,146	550,146
Ownership of pooled investment funds	1,197,622	—	303	98,794	1,296,719
Investment Loss Trust Fund:					
Deposits – cash and cash equivalents	—	—	—	1,605	1,605
	<u>\$ 1,197,622</u>	<u>—</u>	<u>303</u>	<u>651,536</u>	<u>1,849,461</u>

Investments in collective investment funds cannot be categorized into one of the above three risk categories because they represent interests in funds rather than ownership of specific securities.

The Plan's share of ownership in specific pooled investment funds totaled \$1,197,622 at January 31, 2004. All of the underlying securities in the pools in which the Plan participates are considered to be Category 1 and are held by the custodian in the Plan's name. Ownership of pooled investment funds totaling \$98,794 represents residual cash which has not been invested in specific pooled investment funds as of January 31, 2004 and cannot be categorized with regards to credit risk.